

Message Text

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ACTION EUR-12

INFO OCT-01 EA-12 ISO-00 CIAE-00 DODE-00 PM-05 H-02
INR-10 L-03 NSAE-00 NSC-05 PA-02 SP-02 SS-15
ICA-20 AID-05 COME-00 EB-08 FRB-01 XMB-04 OPIC-06
LAB-04 SIL-01 OMB-01 STR-07 CEA-01 SEC-01 AGRE-00
ABF-01 FSE-00 /129 W
-----091631 232027Z /63

R 231938Z MAY 78
FM AMEMBASSY BONN
TO SECSTATE WASHDC 8817
DEPARTMENT TREASURY
INFO AMEMBASSY BERN
AMEMBASSY BRUSSELS
AMEMBASSY LONDON
AMEMBASSY PARIS
AMEMBASSY ROME
AMEMBASSY TOKYO
AMCONSUL FRANKFURT

UNCLAS SECTION 01 OF 04 BONN 09454

USEEC ALSO FOR EMBASSY, USOECD ALSO FOR EMBASSY

DEPARTMENT PASS FEDERAL RESERVE

E.O. 11652: N/A
TAGS: ECON EFIN GW
SUBJECT: FINANCIAL DEVELOPMENTS IN GERMANY
(MAY 16 - 22)

REF: BONN 9136, BONN 8985

1. SUBJECTS COVERED: NO SHARP REDUCTIONS IN 1978
FRG EXPORTS; BDI PRESIDENT FOR LOWER TAXES ON BUSINESS;
CENTRAL BANK MONEY; FOREIGN EXCHANGE MARKET (TABLE);
MONEY MARKET (TABLE); BUNDESBANK FOREIGN POSITION;
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BANK LIQUIDITY; BOND MARKET (TABLE); FOREIGN DM BONDS.

2. NO SHARP REDUCTION IN FRG EXPORTS IN 1978:
ACCORDING TO AN INQUIRY MADE BY THE GERMAN CHAMBER OF
COMMERCE AMONG ITS 38 FOREIGN TRADE CHAMBERS NO SHARP
DECLINE IN GERMAN EXPORTS IS ANTICIPATED FOR 1978. THE
CHAMBERS CONCLUDE THAT IN 1978 EXPORTS OF GERMAN GOODS

WILL STILL BE FAVORED BY SPECIALIZATION, HIGH QUALITY, PUNCTUAL DELIVERY, GOOD SERVICING, WELL-DEVELOPED MARKETING CHANNELS, AND THOROUGH ANALYSES OF MARKET POSSIBILITIES. UNFAVORABLE FACTORS FOR GERMAN EXPORTS ARE CONSIDERED TO BE THE LARGE REVALUATION OF THE DEUTSCHEMARK, A DECLINE IN THE COMPETITIVENESS OF GERMAN GOODS DUE TO HIGHER WAGE COSTS AND INCREASING PROTECTIONISM ABROAD. FOR GERMANY'S 12 LARGEST TRADING PARTNERS, THE CHAMBERS PROJECT LOWER GROWTH RATES THAN IN 1977 FOR FRG EXPORTS TO THE U.S., THE NETHERLANDS THE U.K. AND AUSTRIA, WHILE GROWTH RATES OF EXPORTS TO SWITZERLAND, BELGIUM/LUXEMBOURG, THE IRAN AND JAPAN SHOULD REMAIN AT THEIR PREVIOUS YEAR'S LEVEL. EXPORTS TO ITALY, SWEDEN AND SPAIN ARE EXPECTED TO DECLINE FROM THEIR 1977 LEVELS. ONLY FOR GERMAN EXPORTS TO FRANCE IS A HIGHER GROWTH RATE THAN A YEAR AGO EXPECTED.

THE CHAMBERS ESTIMATE THAT GERMAN IMPORTS WILL INCREASE SUBSTANTIALLY IN 1978. THIS IS ATTRIBUTED TO RECENT EXCHANGE RATE DEVELOPMENTS, IMPROVEMENTS IN THE QUALITY OF FOREIGN PRODUCTS AND EXPECTATIONS ABROAD THAT THE GERMAN BUSINESS CYCLE WILL STABILIZE. THUS, THE CHAMBERS CONCLUDE, IN 1978 A "TREND" TOWARD A DECLINING TRADE SURPLUS WILL DEVELOP.

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3. BDI PRESIDENT CALLS FOR LOWER BUSINESS TAXES:
THE NEWLY-ELECTED PRESIDENT OF THE FEDERATION OF GERMAN INDUSTRY (BDI) HAS CALLED ON THE GOVERNMENT TO REDUCE TAXES ON BUSINESS ASSETS -- THE GENERAL PROPERTY TAX AND THE GEWERBESTEUER (A TAX BASED ON A COMBINATION OF PROFITS, AND BUSINESS CAPITAL PLUS IN SOME COMMUNITIES PAYROLLS). DR. FASOLT COMPLAINED THAT SINCE THESE TAXES ARE UNRELATED TO PROFITS, THEY CONSTITUTE A MAJOR CONSTRAINT ON RISK-TAKING. HE RANKED HIGH TAXES ON BUSINESS NEXT TO HIGH WAGE COSTS AS FACTORS HOLDING BACK

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-----091637 232028Z /63

R 231938Z MAY 78
FM AMEMBASSY BONN
TO SECSTATE WASHDC 8818
DEPARTMENT TREASURY
INFO AMEMBASSY BERN
AMEMBASSY BRUSSELS
AMEMBASSY LONDON
AMEMBASSY PARIS
AMEMBASSY ROME
AMEMBASSY TOKYO
AMCONSUL FRANKFURT

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EMPLOYMENT EXPANSION-TYPE INVESTMENTS.

4. CENTRAL BANK MONEY:
IN APRIL SEASONALLY ADJUSTED CENTRAL BANK MONEY (CBM)
INCREASED BY DM 0.7 BILLION. THIS INCREASE FOLLOWS
A DM 0.6 BILLION INCREASE IN MARCH AND A SUBSTANTIAL
DM 1.4 BILLION INCREASE IN FEBRUARY. IF THROUGHOUT
1978 CBM CONTINUES TO INCREASE AT THE GROWTH RATE OF
THE FIRST FOUR MONTHS, AN 11.7 PERCENT INCREASE OF CBM
WOULD RESULT (1978 AVERAGE OVER 1977 AVERAGE).

5. FOREIGN EXCHANGE MARKET:
THE DOLLAR FLUCTUATED WIDELY AGAINST THE DEUTSCHEMARK
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DURING THE WEEK. THE GERMAN FINANCIAL PRESS ATTRIBUTED
THE DOLLAR'S MAY 18-19 WEAKENING TO A STATEMENT
BY BUNDESBANK PRESIDENT EMMINGER FOLLOWING THE MAY 18
CENTRAL BANK COUNCIL MEETING. EMMINGER SAID THAT
THE RECENT STRENGTHENING OF THE DOLLAR AGAINST THE
DEUTSCHEMARK MIGHT HAVE BEEN TOO RAPID. DURING THE
PERIOD UNDER REVIEW FRANKFURT SPOT AND FORWARD DOLLAR
RATES DEVELOPED AS FOLLOWS:

SPOT DOLLARS			FORWARD DOLLARS		
(IN DM PER \$1.--)			(IN PCT. PER ANNUM)		
OPENING	FIXING	CLOSING	ONE-MONTH	THREE-MONTH	
MAY 16	2.1233	2.1223	2.1270	-4.7	-4.8
17	2.1335	2.1280	2.1350	-4.0	-4.5
18	2.1265	2.1177	2.1025	-4.4	-4.6
19	2.1060	2.1115	2.1155	-4.8	-4.6
22	2.1310	2.1335	2.1260	-4.7	-4.6
23	2.1235	2.1248	N.A.	N.A.	N.A.

6. MONEY MARKET:

THE GERMAN MONEY MARKET REMAINED TIGHT WITH ALL MONEY RATES BEING AT OR SLIGHTLY ABOVE THE 3 1/2 PERCENT LOMBARD RATE. THE MINIMUM RESERVE REDUCTION DECIDED BY THE BUNDESBANK ON MAY 18 (AND BECOMING EFFECTIVE JUNE 1) HAS NOT YET HAD ANY EFFECT ON ONE-MONTH AND THREE-MONTH MONEY RATES. DURING THE REPORTING PERIOD FRANKFURT INTERBANK LENDING RATES WERE AS FOLLOWS:

	CALL-MONEY	ONE-MONTH	THREE-MONTH
MAY 16	3.50-3.60	3.55	3.60
17	3.50-3.55	3.55	3.60

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18	3.50-3.55	3.55	3.60
19	3.50-3.55	3.55	3.60
22	3.50-3.55	3.55	3.60

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ABF-01 FSE-00 /129 W

-----091692 232026Z /63

R 231938Z MAY 78
FM AMEMBASSY BONN
TO SECSTATE WASHDC 8819
DEPARTMENT TREASURY
INFO AMEMBASSY BERN
AMEMBASSY BRUSSELS
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7. BUNDESBANK FOREIGN POSITION:
DURING THE PERIOD MAY 8-15 BUNDESBANK'S NET FOREIGN
POSITION DECLINED BY DM 1.6 BILLION TO DM 89.3
BILLION. THE BUNDESBANK ATTRIBUTED THE DECLINE
LARGELY TO FOREIGN PAYMENTS OF THE FEDERAL GOVERNMENT
AND THE EXCHANGE OF PROCEEDS OF FOREIGN DM BOND ISSUES
INTO NON-DEUTSCHEMARK CURRENCIES. FOREIGN EXCHANGE
HOLDINGS DECLINED BY DM 1,029 MILLION. SDR HOLDINGS
INCREASED BY DM 6 MILLION, AND FOREIGN LIABILITIES
BY ABOUT DM 580 MILLION.

8. BANK LIQUIDITY:
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DURING THE SAME PERIOD BANK LIQUIDITY DECLINED BY DM 1.1
BILLION. BASIC FACTORS REDUCING LIQUIDITY WERE THE
ABOVE-MENTIONED DECLINE IN THE BUNDESBANK'S FOREIGN
POSITION AND A DM 1.1 BILLION INCREASE IN THE BANKS'
HOLDINGS OF RESERVES AT THE BUNDESBANK. FACTORS
INCREASING LIQUIDITY WERE THE USUAL DECLINE IN CURRENCY
IN CIRCULATION IN THE SECOND WEEK OF A MONTH (DM 0.6
BILLION) AND ANOTHER DM 0.6 BILLION DECLINE IN ASSETS
OF PUBLIC AUTHORITIES HELD AT THE BUNDESBANK.
OTHER FACTORS, NET, INCREASED LIQUIDITY BY DM 0.4 BILLION.

THE BANKS FINANCED THE DECLINE IN LIQUIDITY BY
INCREASING SPECIAL REDISCOUNT BORROWINGS BY DM 1.6
BILLION AND NORMAL REDISCOUNT BORROWINGS BY DM 0.3
BILLION. AT THE SAME TIME THEY REDUCED LOMBARD
BORROWINGS BY DM 0.8 BILLION.

9. BOND MARKET:

THE ANNOUNCEMENT OF THE MINIMUM RESERVE REDUCTIONS HAS
SO FAR HAD NO EFFECT ON THE MARKET FOR DOMESTIC BONDS.
PRICES CONTINUED TO DECLINE AND, ACCORDING TO THE PRESS,
AVERAGE YIELDS OF OUTSTANDING DOMESTIC BONDS BROKEN
DOWN BY REMAINING MATURITY WERE AS FOLLOWS:

REMAINING MATURITY

(YEARS) 1 3 5 7 9 10

--- --- --- --- --- ---

MAY 19 4.05 5.05 5.35 5.90 6.15 6.25

MAY 12 3.95 4.95 5.35 5.75 6.05 6.15

JUST PUBLISHED DATA ON SALES OF DOMESTIC BONDS IN APRIL
ARE AN INDICATION OF THE WEAK CONDITIONS PREVAILING ON
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THE BOND MARKET. IN APRIL NET SALES OF NEWLY ISSUED
DOMESTIC BONDS TOTALLED ONLY DM 1.7 BILLION AS
COMPARED WITH DM 4.8 BILLION IN APRIL 1977 AND DM 3.3
BILLION IN MARCH 1978. IN THE FIRST TWO MONTHS OF 1978
NET SALES WERE SUBSTANTIALLY HIGHER (DM 6.3 BILLION IN
FEBRUARY AND DM 8.7 BILLION IN JANUARY).

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-----091660 232025Z /63

R 231938Z MAY 78

FM AMEMBASSY BONN

TO SECSTATE WASHDC 8820

DEPARTMENT TREASURY

INFO AMEMBASSY BERN

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10. FOREIGN DM BONDS:

THE INDUSTRIAL BANK OF JAPAN FINANCE COMPANY, CURACAO, A SUBSIDIARY OF THE INDUSTRIAL BANK OF JAPAN, HAS ISSUED A DM 100 MILLION LOAN CARRYING A COUPON OF 5 PERCENT AND AN AVERAGE MATURITY OF 5 1/2 YEARS. THE JAPANESE FIRMS NIPPON SHINPAN CO. LTD. AND SANKYO ELECTRIC CO. WILL OFFER CONVERTIBLE BONDS OF DM 50 MILLION AND DM 40 MILLION, RESPECTIVELY, CARRYING A COUPON OF 3 3/4 PERCENT, AN ISSUE PRICE OF 100 AND A MATURITY OF 7 YEARS (SANKYO BONDS 8 YEARS). THE THREE ISSUES WERE ANNOUNCED BEFORE THE SUBCOMMITTEE FOR FOREIGN DM BONDS OF THE CENTRAL CAPITAL MARKET COMMITTEE DECIDED ON UNCLASSIFIED

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MAY 12 TO STOP TEMPORARILY THE FLOATATION OF FOREIGN DM BONDS (SEE BONN 8985).

11. ECONOMIC INDICATORS PUBLISHED THIS WEEK:

ACCORDING TO PRELIMINARY FIGURES OF THE FEDERAL STATISTICAL OFFICE, THE INDEX OF INDUSTRIAL PRODUCER PRICES (NON-SEASONALLY ADJUSTED) IN APRIL EXCEEDED COMPARABLE 1977 LEVELS BY 0.8 PERCENT. IN BOTH FEBRUARY AND MARCH, YEAR-OVER-YEAR GROWTH CAME TO 1.0 PERCENT.
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ISecure: 1
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